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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
ROBERT W. SWANSON, DIRECTOR

LINDA A. WATTERS
COMMISSIONER

DATE: February 16, 2007

LETTER NO.: 2007-CU-02

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

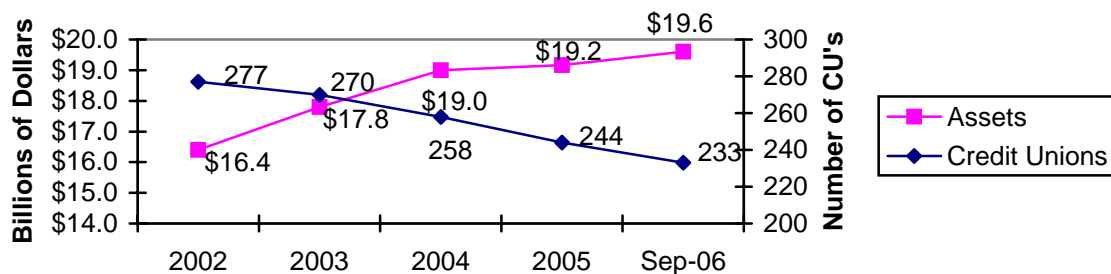
SUBJECT: 2006 Fourth Quarter Financial Results

The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the December 31, 2006 call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

The number of Michigan state-chartered credit unions continued to decline as three more institutions merged out during the fourth quarter of 2006. Asset growth was at 5.10% (annualized) during the third quarter of 2006. Credit unions reporting a decline in assets greater than 5% declined from 56 at September 30, 2006 to 48 at December 31, 2006. Total assets held by Michigan state-chartered credit unions grew by \$460 million during 2006 (Figure 1).

Figure 1

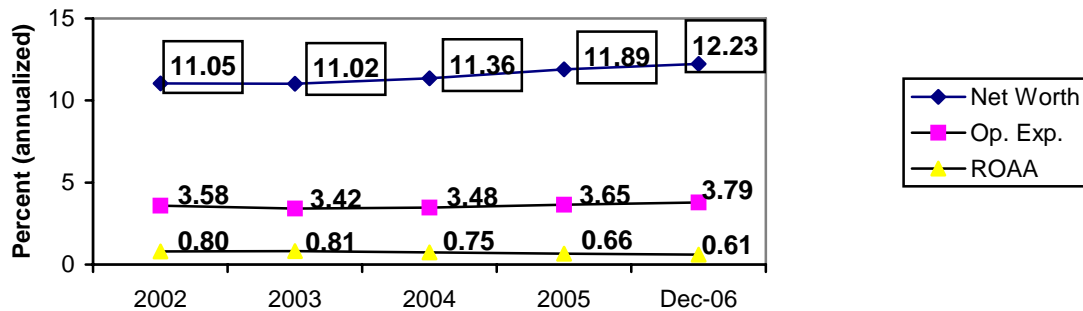


Net Worth and Earnings

Net worth remained stable at 12.23% of total assets at December 31, 2006. Gross income, cost of funds, and operating expenses all increased slightly during the fourth quarter (Figure 2).

Several credit unions have significant levels of borrowed funds, and the total interest on borrowed funds has increased nearly 70% since year-end 2005. This can be attributed to higher fed fund rates, and increases in the usage of credit lines.

Figure 2



Asset Quality Remains Sound

Delinquency increased slightly from 1.07% to 1.14% during the fourth quarter of 2006. Credit unions reporting net charge-offs greater than 1.5% of average loans increased by 9 to 24 at December 31, 2006.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and exercising appropriate due diligence to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division